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MEMORANDUM FOR: Deputy Director (Support)

SUBJECT : Purchase of Office Machines for Use by GEHA

REFERENCE : Memorandum for Deputy Director (Support) from Chairman of the Board of Directors, GEHA; subject, Administrative Action in Respect to the Insurance and Claims Branch, Office of Personnel, dated 6 April 1955

1. Reference memorandum has been forwarded by you to this office for comments. The memorandum requests your approval for the expenditure of Agency funds to procure certain business machines and other related equipment for use in processing GEHA premiums and dues.
2. From the standpoint of this office, the issue raised here is only one aspect of a larger problem which members of this office have been considering for several weeks. As you are aware, GEHA is a private corporation, incorporated under the laws of the District of Columbia for the stated purpose of "providing for the payment of accident and hospital benefits to members or their dependents." By its by-laws, the membership of GEHA is limited to "employees" of this Agency. The fact remains, however, that it is, under the law, a private corporation and not a functional or proprietary operation of the Government. This raises certain serious questions as to the propriety and legality of this Agency's paying from its appropriated funds, the total overhead expenses of GEHA. In this regard you will recall that you recently declined to approve payment from Agency funds of a GEHA cash shortage resulting from the handling of premiums received.
3. A similar problem was considered several years ago with respect to the CIA Federal Credit Union. For the first seven years of its existence, the employees' salaries and other overhead expenses of the Credit Union were borne by the Agency. Upon investigation, it was determined that these costs should not properly be paid by the Agency, but from earned income of the Credit Union. This change has been effected, and the Credit Union now reimburses the Agency for the salaries of its full-time employees and has recently purchased from earned income several business machines similar to those now requested by GEHA.
4. We readily recognize that the total cost of operating GEHA should not properly be paid by the membership because the costs normally incident to operating an organization of this nature are unreasonably increased by

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the security demands of this Agency. The prime example of this is the fact that claims against the policies are handled internally and not by the underwriter as would normally be the case. Certain other security aspects, such as the time-consuming problems occasioned by dealing with both true names and pseudonyms, undoubtedly also add to the cost factor. However, to the extent that a portion of the total costs are normal to any similar organization not confronted with the special demands imposed by this Agency, such costs should be borne by the membership. Monies to meet such costs would undoubtedly have to come from levying annual dues on the membership.

5. With specific reference to the request at hand, this office recommends that your approval be deferred until a study of the overall problem relating to the overhead costs of GEHA is accomplished. It is our understanding that the machines to be procured will be used to process premium and dues receipts, and not to record claims. Since such payments are always collected by the group and submitted collectively to the underwriter, it would appear that the cost of increasing the efficiency of such collections should be paid by the membership. As a suggestion, a survey of similar beneficial associations might give guidance on what could be considered as normal overhead costs of the organization. An equitable formula could then be established to apportion the overhead costs of GEHA between the membership and the Agency.



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LAWRENCE R. HOUSTON
General Counsel

Attachment - Referenced Memorandum

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